

Message Text

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ACTION NEA-10

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R 150210Z AUG 78
FM AMEMBASSY NEW DELHI
TO SECSTATE WASHDC 3389
INFO AMCONSUL BOMBAY
AMCONSUL CALCUTTA
AMCONSUL MADRAS

UNCLAS NEW DELHI 12381

PASS TREASURY

E.O. 11652: N/A
TAGS: EFIN, ETRD, IN
SUBJECT: GOLD DEVELOPMENTS

REF: NEW DELHI 6466

1.SUMMARY. THE GOI HAS ANNOUNCED ITS SCHEME TO REPLENISH
GOLD FOR THE EXPORT OF GOLD JEWELRY. THE RESERVE BANK OF
INDIA'S SALES OF DOMESTIC GOLD ARE RUNNING INTO DIFFICULTIES.
END SUMMARY.

2. GOLD REPLENISHMENT SCHEME. ON AUGUST 11 MINISTER OF
COMMERCE DHARIA ANNOUNCED TO THE LOK SABHA THE GOVERNMENT'S
POLICY OF REPLENISHING GOLD TO EXPORTERS OF ORNAMENTS MADE
OF GOLD OF 14 CARATS OR HIGHER. THE GOLD WILL BE SOLD AT
PRICES BASED ON THE INTERNATIONAL PRICE OF GOLD THROUGH
THE STATE BANK OF INDIA (SBI) TO REGISTERED EXPORTERS OF
GEMS AND JEWELRY, COOPERATIVES OF CERTIFIED GOLDSMITHS
AND PUBLIC SECTOR CORPORATIONS OPERATING AS EXPORT
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HOUSES. THE SCHEME, WHICH IS EFFECTIVE AUGUST 21, WILL
COVER EXPORTS MADE BY AIR FREIGHT THROUGH CUSTOMS HOUSES
AT BOMAY, MADRAS, CALCUTTA AND DELHI AGAINST CONTRACTS
SUPPORTED BY IRREVOCABLE LETTERS OF CREDIT OR CASH ON
DELIVERY BASIS. AFTER INDIAN CUSTOMS AUTHORITIES HAVE
VERIFIED THE GOLD WEIGHT AND PURITY IN THE EXPORTED ITEMS
AND THE EXPORT VALUE (WITH A MINIMUM VALUE ADDED OF AT

LEAST 33.3 PERCENT OVER THAT OF THE GOLD CONTENT) AND AFTER THE FOREIGN EXCHANGE TRANSACTIONS HAVE BEEN REALIZED, THE EXPORTERS WILL BE ELIGIBLE FOR GOLD REPLENISHMENT. DHARIA INDICATED THAT THE SCHEME WOULD BE FURTHER MODIFIED AT A LATER DATE FOR GOLD JEWELRY STUDED WITH STONES. HE SAID THE MAJOR PURPOSE OF THE POLICY WAS TO INCREASE THE EXPORT OF GOLD JEWELRY, THEREBY PROVIDING MORE EMPLOYMENT AND FOREIGN EXCHANGE FOR THE COUNTRY.

3. COMMENT. ALTHOUGH DHARIA DID NOT SPELL OUT DETAILS, GOLD FOR THE APPROVED EXPORTERS WILL PRESUMABLY BE REPLENISHED FROM IMPORTS. INDIAN GOLD JEWELRY EXPORTS AMOUNTED TO ONLY RS.48 MILLION LAST FISCAL YEAR, BUT THE MINISTRY OF COMMERCE BELIEVES THAT THE ANNUAL EXPORT POTENTIAL IS UP TO AROUND RS.10 BILLION. THE ROLE OF CUSTOMS AUTHORITIES, WHO ARE NOT EXPERT IN DETERMINING THE QUALITY AND CONTENT OF GOLD IN JEWELRY EXPORTS, WILL BE CRUCIAL FOR THE SUCCESS OF THIS SCHEME. EDITORIAL REACTION HAS BEEN CAUTIOUS, EMPHASIZING THE RESTRICTED SCOPE OF THE SCHEME BUT WARNING OF THE DANGERS OF CORRUPTION (E.G. COLLUSION BETWEEN CUSTOMS OFFICIALS AND EXPORTERS). END COMMENT.

4. GOLD AUCTIONS. SINCE MAY 3 THE RESERVE BANK OF INDIA (RBI) HAS BEEN SELLING NON-MONETARY STOCKS OF GOVERNMENT-HELD GOLD EVERY TWO WEEKS. ACCEPTED BID PRICES HAVE UNCLASSIFIED

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GENERALLY BEEN 5 TO 10 PERCENT LOWER THAN DOMESTIC GOLD PRICES. IN THE FIRST SEVEN AUCTIONS APPROXIMATELY 9.3 MILLION GRAMS (9.3 METRIC TONS) OF GOLD WAS SOLD, WORTH ABOUT RS.600 MILLION (DOLS 75 MILLION AT RS.8.00 EQUAL DOLLAR 1). HOWEVER, FOR THE FIRST TIME THE RBI REJECTED ALL (1,823) BIDS RECEIVED FOR THE EIGHTH GOLD AUCTION HELD ON AUGUST 8 BECAUSE NONE OF THE BIDS CAME UP TO THE MINIMUM RESERVE PRICE FIXED BY THE AUCTION COMMITTEE.

5. COMMENT. THE AUCTIONS HAVE NOT BEEN SUCCESSFUL IN BRINGING DOWN DOMESTIC GOLD PRICES IN RECENT WEEKS. WHEN THE PLAN WAS ANNOUNCED IN LATE APRIL, THE LOCAL GOLD PRICE WAS RS. 720 PER TEN GRAMS. THEREAFTER THE PRICE WENT DOWN TO APPROXIMATELY RS.660 IN EARLY JUNE BUT SINCE THEN IT HAS STEADILY GONE HIGHER. AFTER THE CANCELLATION OF THE AUGUST 8 BIDS GOLD PRICES JUMPED, AND BY AUGUST 13 THE PRICE WAS AT A RECORD RS.750 PER TEN GRAMS (EQUIVALENT TO ABOUT DOLS 290 PER FINE OUNCE AT RS.8.00 EQUAL DOLLAR 1). THE RBI IS APPARENTLY NOT SELLING ENOUGH GOLD TO MEET THE RISING DOMESTIC DEMAND, ALTHOUGH THE AUCTIONS HAVE PRESENTED DOMESTIC PRICES FROM GOING UP EVEN FASTER. PURCHASERS OF THE RBI GOLD AUCTIONS, MOSTLY LARGE DEALERS,

HAVE BEEN MAKING MONEY BY SELLING GOLD AT HIGHER LOCAL
MARKET PRICESWM ALSO, THE CONTINUED GAP BETWEEN INTERNATIONAL
AND INDIAN DOMESTIC GOLD PRICES IS A TEMPTING INVITATION
FOR SMUGGLERS.
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